



July 26, 2013

Draft Resolution W- 4957

Agenda ID #12272

TO: All Interested Persons

Enclosed is draft Resolution W-4957 of the Division of Water and Audits approving Cobb Mountain Water Company's request to recover expenses for litigation and the production of an annual report. The Commission may act on this resolution or it may postpone action until later.

When the Commission acts on a draft resolution, the Commission may adopt all or part of the draft resolution, as written, or amend or modify the draft resolution; or the Commission may set the draft resolution aside and prepare a different resolution. Only when the Commission acts does the resolution become binding.

Interested persons may submit comments on the draft Resolution W- 4957. An original of the comments with a certificate of service, should be submitted to:

Division of Water and Audits, Third Floor
Attention: Albert Schiff
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Division of Water and Audits, Third Floor
Attention: Rami Kahlon
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Interested persons must serve a written or electronic copy of their comments on the utility on the same date that the comments are submitted to the Division of Water and Audits. Interested persons may submit comments on or before August 26, 2013.

Comments should focus on factual, legal, or technical errors or policy issues in the draft resolution.

Persons interested in receiving comments submitted to the Division of Water and Audits may contact Albert Schiff by e-mail at aas@cpuc.ca.gov, or by telephone at (415) 703-2144.

/s/ RAMI S. KAHLON
Rami S. Kahlon, Director
Division of Water and Audits

Enclosures: Draft Resolution W-4957
Certificate of Service
Service List

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS

RESOLUTION NO. W-4957

September 5, 2013

R E S O L U T I O N

**(RES. W-4957), COBB MOUNTAIN WATER COMPANY. ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING
ADDITIONAL ANNUAL REVENUE OF \$5,526 OR 31.8% IN
TEST YEAR 2013.**

SUMMARY

By Advice Letter 39, filed on July 19, 2012, Cobb Mountain Water Company seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return. This resolution grants an increase in gross annual revenues for Test Year 2013 of \$5,526, or 31.8%, which is estimated to provide a Rate of Margin of 22.08%.

BACKGROUND

Cobb Mountain Water Company (Cobb Mountain) has requested authority under Section 7.6.2 of General Order (GO) 96-B and Section 454 of the Public Utilities Code to increase its water rates by \$2,959, or 17.01%, in Test Year (TY) 2012. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate return.

The present rates became effective on October 27, 2005, pursuant to Resolution (Res.) W-4567, which authorized a general rate increase (GRC) producing \$3,391, or 24.2%, in additional annual revenue.

Cobb Mountain provides water service to 63 metered service connections in the service area one mile west of the town of Cobb, in Lake County. Cobb Mountain is owned and operated by Mr. Vincent Bruce Anderson.

Cobb Mountain obtains its water supply through ground-water sources via a protected spring. The water system uses three steel storage tanks plumbed in parallel. The total capacity of the three tanks is approximately 25,500 gallons. The water distribution system has one pressure zone served by gravity. The piping is mainly 1.5 to 4 inch diameter galvanized steel pipe. Cobb Mountain has no fire hydrants in the system.

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

NOTICE AND PUBLIC MEETING

In accordance with GO 96-B, Advice Letter (AL) 39 was served to each customer of Cobb Mountain, as well as to its advice letter service list by mail on August 9, 2012. The Division of Water and Audits (Division) received no responses or protests regarding the proposed rate increase.

A public meeting was held Saturday, September 4, 2012, at 6:00 pm, at the Mountain Lions Club located in the community of Cobb. The meeting started at 6:00 PM, and adjourned at 6:45 PM, with five Cobb Mountain customers in attendance. The Division representative explained Commission procedures, as well as the purpose of the meeting. Cobb Mountain's representative made a presentation to explain the need for the rate increase. The remainder of the meeting consisted of comments and questions by the customers. Most of the questions and comments were general in nature and dealt with Cobb Mountain's revenues, expenses, investments, and the requested increase. The customers were generally satisfied with the performance of the company.

DISCUSSION

In reviewing Cobb Mountain's rate increase request, the Division made an independent analysis of the utility's operations. Appendix A of this resolution shows Cobb Mountain's and the Division's estimates of operating revenues, expenses, and rate base. Appendix A also shows differences in Cobb Mountain's and the Division's estimates in operating revenues, expenses, and rate base, which are discussed below. Cobb Mountain was informed of the Division's differing views of revenues, expenses, and rate base and agrees with the Division's recommended revenue requirement in Appendix A, as well as the recommended rates contained in Appendix B.

Division staff (Staff) audited operating expenses, including purchased power, other volume-related expenses, materials, transportation, management salaries, uncollectibles, office supplies and expenses, professional services, insurance, regulatory commission expenses, and general expenses. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included those expenses that were deemed reasonable and prudent. Plant was also evaluated and the Division is in concurrence with Cobb Mountain's ratebase estimate.

As the first half of 2013 has elapsed, this resolution grants Cobb Mountain a 2013 TY by escalating Division estimated 2012 expenses by factors provided by the Division of Ratepayer Advocates in their memorandum dated June 28, 2013. The ratebase and the adopted quantities contained in Appendix C are also updated to reflect TY 2013.

Notable differences in expense estimates are found in water testing and employee labor. For water testing, Cobb Mountain requested \$1,322 for the test year. The Division

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

found that Cobb Mountain's estimate of expenses was for a three year period and does not occur annually. The Division recommends one-third of this amount, or \$441, for the test year, escalated to \$444 for TY 2013.

While Cobb Mountain did not request any employee labor, the Division's review found that the owner is performing all labor tasks himself and not billing the utility for his services. The Division analyzed the amount paid for labor in similar Class D utilities and found it to be nominally \$88 per ratepayer per year. The Division recommends \$3,800 for this category as reasonably based on a charge of \$60 per customer per year, escalated to \$3,880 for TY 2013.

Cobb Mountain's draft advice letter requested rates that would produce a rate of margin of 26.1% based upon their estimates of operating expenses.

The Division's Audit & Compliance Branch has conducted an analysis of the financial market changes with the last year and the high operational risk faced by Class D water companies and has determined that the appropriate rate of margin is 22.08% for TY 2013 and a Rate of Return from 11.00% to 12.00% for TY 2013 for a Class D, 100% equity-financed utility.

There are two methods available for the Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. Per Decision (D.) 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. The Division found that using the Rate of Margin of 22.08% would produce \$22,917 in revenue for TY 2013, which is higher than the \$22,500 in revenue calculated using the Rate of Return on rate base method. Therefore, the Division recommends using the Rate of Margin method.

D.92-03-093 also allows Class D utilities to recover up to 100% of fixed costs in their readiness to serve charge. The rates shown in Appendix B recover 100% of the utility's fixed cost in the service charge. Cobb Mountain's current rate structure consists of one schedule: Schedule No. 1A, Annual General Metered Service. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the Department of Public Health, the utility currently meets all applicable water quality standards.

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

The local fire agency has a contract with the California Division of Forestry (CDF) to provide fire protection to customers of Cobb Mountain in case of a fire. CDF Staff is on hand 24 hours a day 7 days a week for emergency contact.

COMMENTS

Public Utilities Code Section 311 (g) (1) generally requires that resolutions must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this draft resolution was mailed to the utility and the protestant and was made available for public comment on July 26, 2013.

FINDINGS

1. Cobb Mountain Water Company (Cobb Mountain) has requested authority under Section 7.6.2 of General Order (GO) 96-B and Section 454 of the Public Utilities Code to increase its water rates by \$2,959 or 17.01%, in Test Year (TY) 2012.
2. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate return.
3. The present rates became effective on October 27, 2005, pursuant to Resolution (Res.) W-4567, which authorized a general rate increase (GRC) producing \$3,391 or 24.2% additional annual revenue.
4. Cobb Mountain provides water service to 63 metered service connections in the service area one mile west of the town of Cobb, in Lake County.
5. Cobb Mountain is owned and operated by Mr. Vincent Bruce Anderson.
6. Cobb Mountain obtains its water supply through ground-water sources via a protected spring.
7. In accordance with GO 96-B, Advice Letter (AL) 39 was served to each customer of Cobb Mountain, as well as to its advice letter service list by mail on August 9, 2012.
8. The Division of Water and Audits (Division) received no responses or protests regarding the proposed rate increase.
9. The Division made an independent analysis of the utility's operations.

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

10. Cobb Mountain was informed of the Division's differing views of revenues, expenses and rate base and agrees with the Division's recommended revenue requirement in Appendix A, as well as the recommended rates contained in Appendix B.
11. The Division concurs with Cobb Mountain's ratebase estimate.
12. This resolution grants Cobb Mountain a 2013 TY.
13. The Division estimated 2012 expenses are escalated based by factors provided by the Division of Ratepayer Advocates in their memorandum dated June 28, 2013.
14. Notable differences in expense estimates are in found in water testing and employee labor.
15. Cobb requested rates that would produce a rate of margin of 26.1%.
16. The Division's Audit & Compliance Branch has determined that the appropriate rate of margin is 22.08% for Test Year 2013.
17. The Division's Audit & Compliance Branch has determined that the appropriate Rate of Return is from 11.00% to 12.00% for TY 2013 for a Class D, 100% equity-financed utility.
18. The Division found that using the Rate of Margin of 22.08% would produce \$22,917 in revenue for TY 2013, which is higher than the \$22,500 in revenue calculated using the Rate of Return on rate base method.
19. The Division recommends using the Rate of Margin method.
20. The rates shown in Appendix B recover 100% of the utility's fixed cost in the service charge.
21. Cobb Mountain's current rate structure consists of one schedule: Schedule No. 1A, Annual General Metered Service.
22. There are no outstanding Commission orders requiring system improvements.
23. The utility currently meets all applicable water quality standards.

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

24. The Division's recommended summary of earnings (Appendix A) are reasonable and should be adopted.
25. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
26. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
27. It is appropriate to grant Cobb Mountain an increase in gross annual revenues for Test Year 2013 of \$5,526, or 31.8%.

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Cobb Mountain Water Company to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendix B and to concurrently cancel its presently effective rate Schedule No. 1A, Annual General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Cobb Mountain Water Company is authorized to increase its annual revenues by \$5,526, or 31.8%, based on reasonable rates for TY 2013.
3. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 5, 2013; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

APPENDIX A

COBB MOUNTAIN WATER COMPANY Summary of Earnings TY 2013

	Utility Estimated		Division Estimated		Division	
	Present Rates	Requested Amounts	Present Rates	Proposed Rates	Recommended ROM Rates	
<u>Operating Revenues:</u>						
Water Sales	\$ 17,391	\$ 20,350	\$ 17,391	\$ 22,900	\$ 22,917	
<u>Operating Expenses:</u>						
Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -	
Purchased Power	\$ 945	\$ 945	\$ 907	\$ 907	\$ 907	
Other Vol. Rel. Exp.	\$ 215	\$ 215	\$ 217	\$ 217	\$ 217	
Employee Labor	\$ -	\$ -	\$ 3,880	\$ 3,880	\$ 3,880	
Materials	\$ 207	\$ 207	\$ 151	\$ 151	\$ 151	
Contract Work	\$ 1,340	\$ 1,340	\$ 1,310	\$ 1,310	\$ 1,310	
Water Testing	\$ 1,322	\$ 1,322	\$ 444	\$ 444	\$ 444	
Transportation	\$ 726	\$ 726	\$ 648	\$ 648	\$ 648	
Other Plant Maintenance						
Office Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	
Management Salaries	\$ 5,567	\$ 5,567	\$ 5,684	\$ 5,684	\$ 5,684	
Employee Benefits	\$ -	\$ -	\$ -	\$ -	\$ -	
Uncollectibles	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6	
Office Services & Rentals	\$ -	\$ -	\$ -	\$ -	\$ -	
Office Supplies & Expenses	\$ 1,148	\$ 1,148	\$ 1,157	\$ 1,157	\$ 1,157	
Professional Services	\$ 187	\$ 187	\$ 202	\$ 202	\$ 202	
Insurance	\$ 1,485	\$ 1,485	\$ 1,512	\$ 1,512	\$ 1,512	
Regulatory Commission Expense	\$ -	\$ -	\$ -	\$ -	\$ -	
General Expenses	\$ 748	\$ 748	\$ 754	\$ 754	\$ 754	
Total Operating Expenses	\$ 13,896	\$ 13,896	\$ 16,872	\$ 16,872	\$ 16,872	
Depreciation Expense	\$ 894	\$ 894	\$ 858	\$ 858	\$ 858	
Taxes other than income	\$ 241	\$ 241	\$ 238	\$ 238	\$ 238	
CA Franchise Tax	\$ 800	\$ 800	\$ 800	\$ 800	\$ 800	
Federal Income Taxes	\$ 656	\$ 656	\$ -	\$ 588	\$ 588	
Interest Expense	\$ -	\$ -	\$ -	\$ -	\$ -	
Total Deductions	\$ 16,487	\$ 16,487	\$ 18,768	\$ 19,356	\$ 19,356	
Net Revenue	\$ 904	\$ 3,863	\$ (1,377)	\$ 3,544	\$ 3,560	
Avg Plant	\$ 50,432	\$ 50,432	\$ 50,432	\$ 50,432	\$ 50,432	
Avg Accum Dep	\$ (26,695)	\$ (26,695)	\$ (27,589)	\$ (27,589)	\$ (27,589)	
Net Plant	\$ 23,737	\$ 23,737	\$ 22,843	\$ 22,843	\$ 22,843	
Less: CIAC	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
Plus: Materials & Supplies	\$ 203	\$ 203	\$ 1,000	\$ 1,000	\$ 1,000	
Working Cash	\$ 1,053	\$ 1,053	\$ 2,736	\$ 2,736	\$ 2,736	
Rate Base:	\$ 24,993	\$ 24,993	\$ 26,579	\$ 26,579	\$ 26,579	
Rate of Margin	6.11%	26.12%	-7.77%	19.99%	20.08%	

END APPENDIX A

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

APPENDIX B

COBB MOUNTAIN WATER COMPANY

Sheet 1

Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all services.

TERRITORY

The west half of Section 3, Township 11 North, Range 8 West, M.D.B. and M. and vicinity, near Cobb, Lake County.

RATES

Quantity Rate:

All water, per 100 cu.ft.....	\$ 1.19	(I)
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Per Meter
Per Year

Annual Service Charge:

For 5/8 x 3/4-inch meter.....	\$ 323.79	(I)
For 3/4-inch meter.....	485.68	
For 1-inch meter.....	809.47	
For 1-1/2-inch meter.....	1,618.94	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge for water computed at the Quantity Rate.

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months he may elect, at the beginning of the calendar year, to pay prorated service charges on a bimonthly basis in accordance with the utility's established billing periods for water used.

(CONT.)

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

APPENDIX B

COBB MOUNTAIN WATER COMPANY

Sheet 2

Schedule No. 1A

(continued)

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS (continued)

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual service charge for the service size. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial charge shall be credited against the charges for the succeeding annual period. If the service is not continued for at least one year after the date of initial service, no refund of the initial charge shall be due the customer.
3. As authorized by the California Public Utilities Commission, all bills are subject to a surcharge of \$42.05, to be collected over three years in 18 payments of \$2.34 due at the time of the regular bimonthly (every other month) billing beginning the effective date of the supplemental advice letter (August 25, 2012) (C) for unanticipated leak detection and repair expense.
4. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that utility will, at the utility's option, be furnished to the account of the landlord or property owner.
5. Delinquent bills are subject to the late charges as set forth in Schedule No. LC.
6. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

END APPENDIX B

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

APPENDIX C

COBB MOUNTAIN WATER COMPANY COMPARISON OF RATES Test Year 2013

Service Charges:

Per Service Connection Per Year

	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For 5/8 x 3/4 inch meter	\$234.34	\$323.79	38.2%

Quantity Charges:

All water delivered per 100 cu. ft.	\$1.01	\$1.19	17.8%
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Comparison of average monthly customer bills at present and authorized rates for a 5/8 x 3/4 - inch meter service using various quantities of water.

<u>Usage 10 cu. ft.</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$20.28	\$26.98	\$6.70	33%
2.5 (avg.)	\$22.80	\$29.95	\$7.14	31%
5	\$25.33	\$32.91	\$7.58	30%
10	\$30.38	\$38.84	\$8.46	28%

END APPENDIX C

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

APPENDIX D

COBB MOUNTAIN WATER COMPANY ADOPTED QUANTITIES Test Year 2013

1. Purchased power (Electric)	
Vendor	Pacific Gas & Electric Company
Schedules	A-1: Small General Service
Total Purchased Power (\$)	\$ 907
2. Professional Services	\$ 200
3. Taxes (other than income)	\$ 238
4. Number of Service Connections: (Metered Rate 5/8 x 3/4-inch service)	63
5. Water Sales (Ccf) - Residents:	2,124 /year

(CONT.)

PROPOSED RESOLUTION

WATER/DRAFT/BMD/AAS/ds4

AGENDA #12272

APPENDIX D

COBB MOUNTAIN WATER COMPANY

ADOPTED QUANTITIES

TEST YEAR 2013

Page 2

<u>Item</u>	
Operating Revenue	\$22,917
O&M Expenses	\$16,872
Taxes Other Than Income	\$ 238
Depreciation	\$ 858
Taxable Income for State Tax	\$ 4,949
State Tax	\$ 800
Taxable Income for FIT	\$ 4,149
Federal Income Tax	\$ 588

END APPENDIX D

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail this day served a true copy of Draft Resolution No. W-4957 on all parties in these filings or their attorneys as shown on the attached list.

Dated July 26, 2013, at San Francisco, California.

/s/ DANIEL SONG
Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

**COBB MOUNTAIN WATER COMPANY
SERVICE LIST OF DRAFT RESOLUTION W-4957**

Cobb Area County Water District
P.O. Box 284
Cobb, CA 95426

Lake County Environmental Health
922 Bevins Ct.
Lakeport, CA 95453

Jack Hawks
Executive Director
CWA
601 Van Ness Ave., Ste. 2047
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